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EEB FOR A/S SULLIVAN
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SUBJECT: SOUTHERN CORRIDOR: MOVING ON TRANSIT AGREEMENT

REF: ATHENS 838

Classified By: Ambassador Ross Wilson. Reasons 1.4 (b) and (d).

11. (C) Summary. In a May 9 meeting, Energy Minister Hilmi Guler agreed with Ambassador that setting a legal framework for transiting Shah Deniz production is the next step in developing Caspian gas exports to Europe via the soon to be completed Turkey-Greece Interconnector (TGI) and the Nabucco pipeline. Guler said he and his Greek counterpart have made progress, but he is perplexed that Azeri officials have not replied to his offers to meet. He described a Turkish model for transit arrangements that include assurances of Turkish access to gas at a price determined on a "netback" basis (i.e., the European consumer price less shipping costs). Guler also wants to keep working on develop supplies in addition to Azerbaijan, including Iraq and trans-Caspian, and asked for US and EU help. He said Russian pressure was unabated, and argued that absence of explicit US support for the Samsun-Ceyhan oil bypass pipeline was playing into Russia's strategy to dominate both oil and gas supplies. Guler seems to have given up earlier ideas of Turkey buying and reselling gas, and to be ready to work with the Azeris and others on the technical issues despite the political uncertainties in Turkey. Moving quickly remains necessary to avoid another crisis this winter. End summary.

12. (C) Ambassador pressed Guler to take a leadership role in engaging with Azerbaijan on a gas transit agreement. He noted that production problems for Shah Deniz I gas seem to have been resolved and urged Turkey to begin accepting Azeri gas volumes and begin transshipment to Greece this summer. He added that we looked forward to a Turkey-Greece "first gas" ceremony in July. Guler replied that there had been some forward movement: Greek Development Minister Sioufas (ref) and he had agreed to meet trilaterally with Italy soon (date not yet set) and the physical Turkey-Greece interconnection should be ready by late July. Meanwhile, however, Azeri officials have not responded to his offers to meet and the status of the first year supply contract with

Azerbaijan is still unresolved. He found this highly perplexing given Turkey's close relations with Azerbaijan.

13. (C) Appealing to Turkey's regional leadership role, Ambassador emphasized that the essential next step for both TGI and Nabucco is developing a gas transit agreement and legal framework that would give investors the confidence they need to develop Shah Deniz II. The Minister agreed, stating three guiding principles for Turkish policy:

1) Turkish security of supply is the priority. Thus, Turkey should have access to gas that is transiting its territory in order to meet its growing demand. Guler said any agreement should give Turkey the option to take up to an agreed amount of gas; he thought that about 20% would be reasonable.

2) Ensuring a reasonable price for Turkish consumers is important. This price should be determined under a "net-back" formula so that the price paid in Turkey is lower than the price paid by European customers by an amount at least equal to transportation costs.

3) Turkey views energy policy as a strategic tool to enhance its international standing.

Guler added that he had found the April USTDA-sponsored visit to the United States -- which his Undersecretary, Sami Demirbilek, joined -- very useful. He hoped that US officials had also found it useful in gaining a better understanding of Turkey's policy as described above.

14. (C) Guler faulted European countries for not taking Turkey's interests into account: "They always talk about Europe's needs, but we have needs too." He estimated Turkey's future gas demand at 30-40 bcm per year. Ambassador urged him to have a deeper dialogue with European energy officials on this subject, including at a June 5 EU-sponsored energy conference in Istanbul that will be attended by Energy Commissioner Piebalgs. Guler said he planned to do so, but noted that the lack of a common EU energy policy meant that every EU member has its own policies and interests. The United States could also help get the message across to European governments.

Iraq Gas

15. (C) Guler put in his regular plug for developing trans-Caspian and Iraqi gas, saying that in his personal opinion it was not clear that Azerbaijan had sufficient gas to meet Turkish and European needs, or the ability to supply those needs in a timely way. Developing other sources would give confidence to consumers as a "back-up" to Shah Deniz II. Ambassador noted that we were waiting for a response from Turkey on our proposed next steps coming out of the March 9 Turkey-Iraq-US gas meeting in Istanbul. The Iraq Neighbors working group on energy that Iraq has asked Turkey to chair was another opportunity. If the US is part of this Neighbors working group, perhaps there could be a Turkey-Iraq-US trilateral on the margins. Guler said it was also important for the EU to play an active role with Iraq.

16. (C) Ambassador strongly cautioned against turning to Iranian gas. Iran is a very risky supplier and will only become more so. We are strongly opposed as a matter of law and policy to investment in Iran's energy sector, including export pipelines. Guler said discussions with Iran were continuing, but alluded to the difficulties, including the ongoing arbitration case. He claimed, however, that U.S. companies were working in Iran's energy sector. We denied this, with the Ambassador noting that the risks in turning to Iran will only grow. Both he and Guler noted US-Turkey cooperation on the Iran nuclear issue.

Russian Pressure

17. (C) Guler also picked up his longstanding theme of pressure from Russia: he resists, but cannot do so forever. Referring to the recent groundbreaking for the Samsun-Ceyhan oil pipeline, Guler asked for more explicit US support for the Bosphorus bypass line. "Even-handed" US support for multiple oil bypass pipelines was playing into the hands of Russia, giving it room to increase its supply dominance. As goes oil, so will go gas, Guler said, warning, "There could be many new Blue Streams." This is part of a bigger Russian strategy, which the US's -- understandable -- reluctance to choose among allies is unintentionally furthering.

Turkey Civilian Nuclear Projects

18. (C) Guler noted that Turkey's parliament had this week passed and sent to President Sezer a bill providing a framework for developing domestic nuclear generation capacity. This would, he said be driven by the private sector. The government will license the most attractive proposals and provide electricity purchase guarantees, but will not operate through a complex tendering process -- thus minimizing opportunities for corruption, Guler said. He said that US companies would be most welcome to participate. Ambassador said that it would be important that the GOT put out sufficient information to US and international companies. Guler noted that there were similar large investment opportunities in the coal sector.

Comment

19. (C) Time is slipping as we approach summer without much progress on a Shah Deniz transit arrangement. The Turks and Greeks seem to be ready to move forward following Sioufas' Ankara visit. The next step is to bring the Azeris into the picture, perhaps with EU help. Turkey's current political uncertainties will make it more difficult to get focus at a top political level, but Guler seems ready and willing to work on the technical issues. Perhaps with the help of the USTDA visit, the issue of the type of transit agreement Turkey wants seems to have been resolved in a positive way. Guler emphasized that he is not "horse trading," but wants to come up with an agreement that all sides would be comfortable with, including the private sector that needs to finance the project.

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